

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2015

Cummins & Coffman, CPA's, P.A.  
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JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on Financial Statements .....	1
Financial Statements:	
Statement of Net Position .....	3
Statement of Revenues, Expenses and Changes in Net Position .....	4
Statement of Cash Flows .....	5
Notes to Financial Statements .....	6
Supplementary Information:	
Schedule of Insurance Coverage .....	11



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural Water District No. 7, Jefferson County, Kansas  
Oskaloosa, KS

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Jefferson County Rural Water District No. 7 as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Jefferson County Rural Water District No. 7 as of December 31, 2015, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### **Required Supplementary Information**

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Rural Water District No. 7 financial statements as a whole. The Schedule of Insurance Coverage is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Cummins & Coffman, CPAs, P.A.*

Topeka, Kansas  
February 12, 2016

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7  
STATEMENT OF NET POSITION  
December 31, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 530,289
Certificates of Deposit	1,828,731
Accounts receivable	5,072
Prepaid expense	4,434
Total current assets	<u>2,368,526</u>

NONCURRENT ASSETS

Property and equipment, net	<u>330,081</u>
Total Assets	\$ <u>2,698,607</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 7,501
Payroll liabilities	3,915
Total current liabilities	<u>11,416</u>

NET POSITION

Invested in capital assets	330,081
Unrestricted	<u>2,357,110</u>
Total net position	2,687,191
Total Liabilities and Net Position	\$ <u>2,698,607</u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7  
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION  
For the Year Ended December 31, 2015

REVENUES

Water sales	\$ 392,900
Total operating revenues	<u>392,900</u>

OPERATING EXPENSES

Depreciation	104,255
Payroll	133,114
Payroll taxes	12,013
Repairs and maintenance	28,297
Materials	44,813
Insurance	8,188
Utilities	44,739
Office expense	8,782
Telephone	5,871
Taxes and licenses	4,210
Professional fees	5,138
Engineering	75
Dues and subscriptions	678
Miscellaneous	1,528
Total operating expenses	<u>401,701</u>
Income (loss) from operations	<u>(8,801)</u>

NON-OPERATING REVENUES (EXPENSE)

Interest income	23,657
Total non-operating revenues (expense)	<u>23,657</u>

NET INCOME (LOSS) BEFORE CONTRIBUTIONS

CAPITAL CONTRIBUTIONS

Benefit units sold	62,000
Total capital contributions	<u>62,000</u>

Change in Net Assets	76,856
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Net Position - Beginning of Year	<u>2,610,335</u>
Net Position - End of Year	<u>\$ 2,687,191</u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7  
STATEMENT OF CASH FLOWS  
Year Ended December 31, 2015

Cash Flows From (Used In) Operating Activities:	
Cash receipts from customer and reimbursements for services	\$ 387,829
Miscellaneous cash receipts	-
Cash payments for goods and services	(149,482)
Cash payments to employees for services	(140,983)
Net cash from (used in) operating activities	<u>97,364</u>
Cash Flows From (Used In) Investing Activities:	
Interest income	1,387
Purchase of CDs	(250,000)
Net cash from (used in) investing activities	<u>(248,613)</u>
Cash Flows From (Used In) Financing Activities:	
Purchase of capital assets	(71,566)
Proceeds from sale of benefit units	62,000
Net cash from (used in) financing activities	<u>(9,566)</u>
Net increase (decrease) in cash and cash equivalents	(160,815)
Cash at Beginning of Year	<u>691,104</u>
Cash at End of Year	<u>\$ 530,289</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (8,801)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	104,255
Changes in assets and liabilities	
Accounts receivable	(5,072)
Prepaid expenses	(4,663)
Accounts payable	7,501
Accrued expenses	4,144
Net cash provided by operating activities	<u>\$ 97,364</u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Rural Water District No. 7, Jefferson County, Kansas (the District) is a water utility that provides service to approximately 650 customers as of December 31, 2015. The District was organized as a quasimunicipal corporation to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the District.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions.

Basis of Accounting

The financial statements of the District are prepared using the accrual method of accounting. Accordingly, income is recorded as earned and expenses are charged as incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

The District considers all highly liquid investments with original maturities of three months or less to be cash equivalents. For the purposes of the statement of cash flows, the District considers checking and some certificates of deposit accounts as cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of current and past due water usage charges and other charges for late fees. The accounts receivable balance at December 31, 2015 is \$5,072.



JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7  
NOTES TO FINANCIAL STATEMENTS  
(continued)  
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are recorded at cost. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The District does not have a formal capitalization policy. Depreciation on all assets is provided using the straight-line method over estimated useful as follows:

	<u>Years</u>
Meters	30
Distribution lines	10
Vehicles	7
Office building	39
Office equipment	10
Other equipment	10

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$5,500.

Net Position

The District's net position is classified as follows:

Invested in capital assets – This represents the District's total investment in capital assets, net of accumulated depreciation and reduced by any outstanding debt attributable to the acquisition, construction or improvements of those assets.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Statement of Cash Flows

A statement of cash flows is presented in accordance with Governmental Accounting Standards Board Statement 9, for the District which operates predominantly as a proprietary fund. For the purposes of the statement of cash flows, demand deposits, and all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7  
NOTES TO FINANCIAL STATEMENTS  
(continued)  
December 31, 2015

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2015, cash balances are comprised of demand deposits and certificates of deposit. As required by law, the depository banks are to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance or obtain surety bonds to equal the amount on deposits at all times.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits in excess of coverage may be lost. At December 31, 2015, the District's carrying amounts of deposits, including certificates of deposit, was \$2,368,424, of which \$1,868,711 was covered by FDIC insurance. \$310,838 was collateralized by securities held in safekeeping pledged to the District. The District was exposed to credit risk in the amount of \$188,875 at December 31, 2015 for amounts exceeding coverage.

NOTE 3 PROPERTY AND EQUIPMENT

The following represents a summary of changes of property and equipment:

	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 42,600	\$ -	\$ -	\$ 42,600
Vehicles	-	38,167	-	38,167
Equipment	85,806	8,627	-	94,433
Water lines and wells	7,393,292	23,237	-	2,416,529
Office equipment	6,480	-	-	6,480
Software	-	1,535	-	1,535
Total assets	\$ 2,528,178	\$ 71,566	\$ -	\$ 2,599,744
Less accumulated depreciation:				
Vehicles	\$ -	\$ (1,363)	\$ -	\$ (1,363)
Equipment	(67,656)	(3,472)	-	(71,128)
Water lines and wells	(2,095,562)	(98,310)	-	(7,193,872)
Office equipment	(2,190)	(598)	-	(2,788)
Software	-	(512)	-	(512)
Total accumulated depreciation	\$ (2,165,408)	\$ (104,255)	\$ -	\$ (2,269,663)
Property and equipment, net	\$ 362,770	\$ (32,689)	\$ -	\$ 330,081

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7  
NOTES TO FINANCIAL STATEMENTS  
(continued)  
December 31, 2015

NOTE 4 COMPENSTATED ABSENCES

The District does not have a paid time off policy for employees, therefore, no accrual is required.

NOTE 5 RISK MANAGEMENT

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water District joined together with other entities in the State to participate in Employees Mutual Insurance Corp. (EMC), a public entity risk pool currently operating as a common risk management and insurance program for the participating members.

The Water District pays an annual premium to EMC for its insurance coverage. The agreement to participate provides that EMC will be self-sustaining through member premiums. Additional premiums may be due if total claims for the pool are different than what has been anticipated by EMC management.

NOTE 6 COMPLIANCE WITH KANSAS STATUTES

Management is aware of no statutory violations for the period covered by the audit.

NOTE 7 TAX EXEMPT STATUS

The District qualifies as a tax-exempt organization for Federal and State income tax purposes. Accordingly, the financial statements do not include a provision for Federal or State income tax liability expense.

While the District is not required to file tax returns, the payroll activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

NOTE 8 SUBSEQUENT EVENT

Subsequent events were evaluated through February 12, 2016, which is the date the financial statements were available to be issued. No events were found requiring disclosure in these financial statements.

## SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7  
SCHEDULE OF INSURANCE COVERAGE  
For the Year Ended December 31, 2015

<u>Property Covered</u>	<u>Coverage</u>	<u>Expires</u>
Commercial Property:	100% Coinsurance	4/16/2016
Location 001 – Hwy 24 & 59	95,360	
Location 002 – ½ Mile W of Hwy 24 & 59	98,900	
Location 003 – 6 Miles S of Oskaloosa	506,112	
Location 004 – 14034 62 <sup>nd</sup> St	678,000	
General Liability:		4/16/2016
Aggregate Limit-		
products/completed operations	1,000,000	
other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Medical expense (per person)	5,000	
Commercial Auto:		4/16/2016
Liability insurance (per loss)	500,000	
Uninsured motorist	500,000	
Underinsured motorist	500,000	
Workman's compensation:		4/16/2016
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		4/16/2016
Per loss	250,000	
Inland Marine	100% Coinsurance	4/16/2016
Property in transit	33,000	
Additional debris removal	5,000	
Pollutant Cleanup and removal	10,000	
Linebacker Coverage		4/16/2016
Each loss	1,000,000	
Aggregate	1,000,000	